

AGENDA ITEM 5
AUDIT RESOLUTION STATUS - REAL ESTATE AUDIT FINDINGS
(PRIOR YEAR REPORTS WITH CURRENT YEAR UPDATES)
AS OF DECEMBER 31, 2007

Partner/Property	Auditor's Finding and Recommendation	Auditee Response and Status per Investment Office	Finding Status / Auditor Comment
Legacy Partners Builders, Inc. (Sept. 2006) General Contractor	7. (4) Refundable Deposits - During the sample testing of paid invoices charged to the project, the Auditors noted refundable deposits in the amounts of \$700 and \$200. The Job Cost Report was reviewed and no credits to project were found for such refundable deposits. The Auditors recommend that the Contractor credit the Job Cost Report for the refundable deposits upon project completion.	7. (4) Legacy Partners Builders, Inc. will credit the project at project completion and/or when refundable deposits are received. Response from Investment Office Both refundable deposits were reimbursed to the project on 12/19/07. Audit finding has been resolved and should now be regarded as completed.	7. (4) COMPLETE: The Auditor concurs with corrective action taken.

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IHP Capital Partners on behalf of PHBIA-Advisor Level (January 2007)	2. (III.B) Portfolio Management: Project Commitment Fee - The Auditors noted that the budgeted project commitment fee was included in the basis for calculating the project commitment fee. The Agreement does not state that the actual project commitment fee should be excluded; however, the Auditors believe that the inclusion of the project commitment fee within the fee basis overstates the actual fee billed. The Auditors' recalculation of this fee resulted in a total overpayment of \$10,966. The Auditors recommend that a credit be provided to CalPERS and Prudential Insurance Company of America in the amount of \$10,070 and \$896, respectively.	2. (III.B) IHP Partners response - IHP disagrees with the interpretation of Section 3.03 by Mayer Hoffman McCann. The project commitment fee should not be excluded from the basis of the fee. The agreement states "for purposes of calculating the Project Commitment Fee "project costs" shall include all costs and expenses expected to be incurred by the Project Owner in owning, developing,... as set forth in the Developer's pro forma budget." The Project Commitment Fee is a cost incurred by the Project Owner and it is in the pro forma budget. Response from Investment Office IHP and the Investment Office are working toward resolving this issue.	2. (III.B) IN PROGRESS: The Auditor continues to recommend that the calculation of the project commitment fee should include all project costs less the actual fee earned.

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<p>Global Forest Partners, LP General Partner Level (January 2007)</p>	<p>2. (III.B) Portfolio Management: Acquisition Fees - The Auditors noted that acquisition fees are being calculated and paid based on the capital call amounts from the Members rather than based on the purchase price as stipulated in the Agreement. As the Hume and Renova acquisitions are an on-going accumulation of properties with numerous escrows, the Auditors recommend that a true-up of acquisition fees including the purchase price of each acquisition from inception to date be performed with the resulting difference, if any, presented to CalPERS on a subsequent invoice. The Auditors recommend that all future acquisition fee invoices should be calculated based upon investment purchase prices pursuant to Section 4.1(f) of the Agreement.</p>	<p>2. (III.B) Global Forest Partners response - [in part] "From 2006 GFP has invoiced the acquisition fee at the time of the capital call, and managed the cash to earn investment return until such time as closing were made. GFP considers it an administrative burden to invoice the fund the acquisition fee at each minor closing, given the rate is 30 to 50 transactions per annum. GFP proposes that it continue to invoice the acquisition fee at time of closing for non-Hume transactions (Renova and any third geography) and for the larger Hume transactions, but that it continue to bundle acquisitions fees for the small Hume closings." [See final report for complete response]</p> <p>Response from Investment Office</p> <p>Item 4 of the Fourth Amendment (pending) proposes that the Acquisition Fee be based on called capital so as to cover situations such as the teak establishment project in Guatemala where the funding is for working capital to establish plantations rather than purchase of an existing timberland asset. GFP notes that pending resolution of the basis of Acquisition Fee payment, no such fees have been paid to GFP on the sixth, seventh, eighth or ninth capital calls.</p>	<p>2. (III.B) IN PROGRESS:</p> <p>The Auditor concurs with management's proposed corrective action regarding invoicing periodically for small Hume closing acquisition fees. However, the Auditors continue to recommend that acquisition fee invoices should be based on actual property closings rather than on capital call amounts pursuant to the terms of the Agreement. The Auditors recommend that the CalPERS Investment Office follow-up with GFP to obtain a true-up of the acquisition fees to date and ensure that future acquisition fees are based on closings rather than on capital call amounts.</p>

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Global Forest Partners, LP General Partner Level (January 2007)	4. (III.D.1) Portfolio Management: Disbursement Testing – The Auditors noted a paid invoice in the amount of \$3,750 relating to the calculation of GFP's co-investment in Sylvanus Partners, LP. Such costs are considered the responsibility of GFP pursuant to Section 4.8(c) of the Agreement.	4. (III.D.1) Global Forest Partners response – “The Co-investment Agreement is a requirement by CalPERS. The calculation of the co-investment amount is properly an audit matter and was therefore appropriately paid by the Fund.” Response from Investment Office: Item 1 of the Fourth Amendment (pending) removes any ambiguity in the Agreement by specifying that third party costs incurred by the Manager in preparing required Fund reports are payable by Sylvanus.	4. (III.D.1) IN PROGRESS: The Auditor continues to recommend that such costs be refunded to the Company pursuant to Section 4.8 (c) of the Agreement.
Global Forest Partners, LP General Partner Level (January 2007)	5. (III.D.2) Portfolio Management: Disbursement Testing – The Auditors noted paid invoices totaling \$930 related to the partnership structure, drafting of the 2 nd Amendment to the Sylvanus Partners, LP agreement and buy-out rights relating to one of the Members of Sylvanus Partners, LP. Such costs are considered the responsibility of GFP pursuant to Section 4.8(c) of the Agreement.	5. (III.D.2) Global Forest Partners response – “In GFP's opinion the work by Foley Hoag drafting the Second Amendment is properly a Fund cost. GFP accepts that Foley Hoag work on a LP Member's buyout is a LP matter, and will isolate the cost and the LP will reimburse the fund.” Response from Investment Office Item 1 of the Fourth Amendment (pending) removes any ambiguity in the Agreement by specifying that third party costs incurred by the Manager in preparing required Fund reports are payable by Sylvanus.	5. (III.D.2) IN PROGRESS: The Auditor agrees that the legal costs associated with the member buyout should be reimbursed. However, the Auditors continue to recommend that the cost of drafting the 2nd Amendment and partnership structuring cost be refunded to the Company pursuant to Section 4.8 (c) of the Agreement.

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Global Forest Partners, LP General Partner Level (January 2007)	6. (III.D.3) Portfolio Management: Disbursement Testing - The Auditors noted legal fees totaling \$7,530 related to the drafting and discussion of the 3rd Amendment to the Agreement. Such costs are considered the responsibility of GFP pursuant to Section 4.8(c) of the Agreement.	6. (III.D.3) Global Forest Partners response - "In GFP's opinion the level of management fees and incentive fees is entirely a Fund matter and therefore the Foley Hoag invoice is appropriately a Fund cost. GFP raised the issue with CalPERS because the Fund rates had fallen behind the market rate." Response from Investment Office Item 1 of the Fourth Amendment (pending) removes any ambiguity in the Agreement by specifying that third party costs incurred by the Manager in preparing required Fund reports are payable by Sylvanus.	6. (III.D.3) IN PROGRESS: The Auditor continues to recommend that such costs be refunded to the Company pursuant to Section 4.8 (c) of the Agreement.
Premier Pacific Vineyards, L.P. General Partner Level (April 2007)	1. (I.A) Preliminary Procedures: Internal Controls - The Auditors noted that the same employees who have cash receipts responsibilities and prepare the bank deposits, also prepare the bank reconciliations. The Controller spot checks cash receipts and reviews bank statements; however, no record of this review is documented. The Auditors recommend that the Controller initial the cash receipts log and bank reconciliations.	1. (I.A) Premier Pacific Vineyards, L.P. response - Both reviews are being - and have been - performed. Review of the cash receipts log is now being documented by the Controller's initials. A completed by, approved by and date signature block has been added to the bottom of all bank reconciliations. The signature block is completed by the employee reconciling the bank statement and by the Controller indicating review and approval. Response from Investment Office Staff considers the finding resolved. The above procedures are currently in place.	1. (I.A) COMPLETE: The Auditor concurs with corrective action taken.

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>2. (I.B) Preliminary Procedures: Internal Controls - The Auditors noted that all seven accounting personnel have access to blank check stock, although few have check preparation responsibilities.</p> <p>The Auditors recommend limiting access to the blank check stock to those employees with check preparation responsibilities.</p>	<p>2. (I.B) Premier Pacific Vineyards, L.P. response - Access to blank check stock has been limited to the Controller and three other Accounting Department employees.</p> <p>Response from Investment Office Staff considers the finding resolved. Access has been limited as recommended by Auditor.</p>	<p>2. (I.B) COMPLETE: The Auditor concurs with corrective action taken.</p>

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>3. (II) Company Background Procedures: Affiliated Companies - The Auditors reviewed the transactions and reporting of the affiliated company (Bighorn Cellars) regarding the Fund's investment in the Silverado Hill Vineyard.</p> <p>The Auditors recommend PPV include a summary of the related party transactions between Bighorn Cellars and the Silverado Hill Vineyard, detailing out the fee structure and revenues received within the quarterly management report to CalPERS. The Auditors further recommend PPV draft and submit to CalPERS a memo of understanding addressing the fees to be charged for use of the facilities.</p>	<p>3. (II) Premier Pacific Vineyards, L.P. response - We will provide a summary of all related party transactions between Bighorn and Silverado in all future Quarterly Management Reports (QMRs). Further, we will draft a memorandum for CalPERS review and approval by March 1st detailing the terms of, and reasoning behind, Bighorn's use of the Silverado facility, one goal of which is to avoid CalPERS involvement in wine production.</p> <p>Response from Investment Office</p> <p>In addition to responding as outlined above, PPV has provided a schedule summarizing all 2006 Bighorn Cellars purchases of venture grapes, which can be compared to the average sales prices paid by third parties. We have also provided a 2006 Crush and Ferment Fee schedule indicating the price per ton all clients pay for crush services at the Silverado production facility. We identified all custom crush fees paid.</p> <p>The information provided indicates that the vendor pays for venture grapes at prices at or exceeding the average prices received from all purchasers of venture grapes and that it pays for custom crush services at the same rates as all customers of the Silverado production facility.</p>	<p>3. (II) COMPLETE:</p> <p>The Auditor concurs with corrective action taken.</p>

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>4. (III.A) Portfolio Management: Budget Comparison - PPV does not include a budget to actual comparison of individual projects in the quarterly reports submitted to CalPERS. PPV includes a written explanation of large variances per investments in the project summary section of the quarterly report; however, PPV does not include detailed budget to actual amounts.</p> <p>The Auditors recommend that PPV include a detailed budget to actual summary for each individual investment in the quarterly report along with the explanation of variances. In the Auditors previous audit report, PPV stated they would include budget to actual comparisons quarterly to CalPERS with management's explanations for any variances consistent with the terms of the Agreements.</p>	<p>4. (III.A) Premier Pacific Vineyards, L.P. response - We will continue to provide detailed variance analysis in the QMRs, as well as meet with CalPERS to ensure that its needs are being met in this regard.</p> <p>Response from Investment Office Staff and PPV are working together on the format to report budget to actual variance in the quarterly reports.</p>	<p>4. (III.A) COMPLETE: The Auditor concurs with corrective action taken.</p>

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>5. (III.B) Portfolio Management: Excess Contributions - The Auditors reviewed the handling of in-kind contributions in lieu of cash contributions made by PPV regarding the Meriwether Farms, LLC. To date there have been three in-kind contributions, Lone Tree, Amity Hills and Coombsville totaling \$4,400,000, which exceeds the total contributions due by PPV pursuant to the terms of the Meriwether Farms, LLC Agreement. The excess contributions approximate \$1,198,000 at 9-30-06.</p> <p>The Auditors recommend that PPV include in the quarterly reports submitted to CalPERS a schedule summarizing the Meriwether Partners Capital transactions regarding the excess contributions from the in-kind transactions completed to-date.</p>	<p>5. (III.B) Premier Pacific Vineyards, L.P. response - We will provide the excess contribution schedule with all future QMRs. We should note that we have provided this schedule to the CalPERS Investment Office in the past, although not on a regular basis.</p> <p>Response from Investment Office</p> <p>Staff considers the finding resolved. PPV has provided a schedule detailing the excess contributions in the quarterly report.</p>	<p>5. (III.B) COMPLETE: The Auditor concurs with corrective action taken.</p>

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>6. (III.C) Portfolio Management: Advertising Campaign - The Auditors reviewed sampled advertising costs and obtained copies of advertisements to determine if the branding image benefits PVP and Meriwether. Only one ad was used during 2006, which does not mention PVP, Meriwether or any of the vineyard investments, and only references Premier Pacific Vineyards with a picture of Williams Hill, Co-CEO of PPV.</p> <p>The Auditors recommend that the costs of the advertising campaign and the sponsorship of the Terroir Conference at UC Davis totaling \$58,885 be reimbursed to the PVP and Meriwether, as they do not show a clear benefit to either Fund or its vineyard investments.</p>	<p>6. (III.C) Premier Pacific Vineyards, L.P. response - We believe that the advertising campaign and expenditures to date have already had a direct impact on our ability to position our high-end vineyards for sale to potential purchasers. A number of wineries on the attached list of current grape buyers have been sourced through this campaign, and we are receiving numerous inquiries about purchase or lease of the vineyards. PPV, as you know, exists only to manage the CalPERS ventures; at this time, it has no other investments. However, because this issue is of some concern to the CalPERS Investment Office, we will schedule a meeting to discuss our advertising program in depth, its cost and its many benefits to both funds [See Detail of Findings and Recommendations for complete response].</p> <p>Response from Investment Office</p> <p>CalPERS and PPV have determined, after further discussion and presentation of a memorandum addressing this topic that PPV will pay for similar costs on a go-forward basis as well as the \$61,418 of such costs already incurred. Website costs will be absorbed by the funds to the extent that such costs can be identified with the value provided to venture projects as determined by PPV from time to time.</p>	<p>6. (III.C) COMPLETE: The Auditor concurs with corrective action taken.</p>

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<p>Premier Pacific Vineyards, L.P. General Partner Level (April 2007)</p>	<p>7. (III.D) Portfolio Management: Disbursement Testing - The Auditors noted: (1) numerous invoices to Tyson Freeman relating to vineyard tours, banner ads, and trademarks that do not specifically identify PVP, Meriwether or one of the vineyards included in either portfolio, and (2) receipts for various dinners and wine tours do not list the persons present or business topics of discussion.</p> <p>The Auditors recommend that all vendor invoices specifically identify the vineyard or the fund in which the services provided benefit. The Auditors also recommend that all dinner and wine tour receipts included in employee expense reports specify the names of the persons present and business topics discussed.</p>	<p>7. (III.D) Premier Pacific Vineyards, L.P. response - When we can specifically identify expenditures to a particular vineyard, we charge that vineyard with the cost. If the expenditure benefits the entire fund we make a cost allocation on a reasonable basis, such as plantable acreage. As noted above, as Manager, PPV's name may sometimes appear on an invoice; however, PPV's only current investments are with Pacific Vineyard Partners and Meriwether Farms. Thus, any vineyard-related expenditure, even if in PPV's name as Manager, only goes to benefit either or both CalPERS funds. At a minimum, all dinner and wine tour receipts should - and will - include the names of parties in attendance and business purpose for the dinner or tour. Any exception in this regard is, we believe, an isolated occurrence.</p> <p>Response from Investment Office</p> <p>Staff considers the finding resolved. Per PPV, all invoices are being identified as appropriate.</p>	<p>7. (III.D) COMPLETE:</p> <p>The Auditor concurs with corrective action taken.</p>

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Premier Pacific Vineyards, L.P. General Partner Level (April 2007)	<p>8. (V.A) Asset Management: Farm Manager Contracts - The Auditors noted that (1) two management contracts do not contain a non-discrimination clause in accordance with CalPERS' Responsible Contractor Policy, and (2) one contract does not have a cancellation provision in accordance with CalPERS' Responsible Contractor Policy.</p> <p>The Auditors recommend PPV include a non-discrimination clause and a cancellation provision in its contracts in accordance with the CalPERS' Responsible Contractor Policy.</p>	<p>8. (V.A) Premier Pacific Vineyards, L.P. response -We will include the appropriate provisions in all third party vendor contracts and, where feasible, communicate with those vendors we have previously contracted with to ensure compliance.</p> <p>Response from Investment Office</p> <p>Staff considers the finding resolved. Per PPV, all appropriate provisions will be included in third party vendor contracts going forward.</p>	<p>8. (V.A) COMPLETE:</p> <p>The Auditor concurs with corrective action taken.</p>
Premier Pacific Vineyards, L.P. General Partner Level (April 2007)	<p>9. (V.B) Asset Management: Farm Manager Invoices - The Auditors noted that (1) Northwest Vineyard Management invoices are in summary form and do not break out hours worked, rates charged or acres under development, and (2) several rates on the Redwood Empire Management invoice did not agree to the contracted amounts.</p> <p>The Auditors recommend that farm managers include the hours/acres worked and contracted rates charged on the face of the invoice or other supporting documentation.</p>	<p>9. (V.B) Premier Pacific Vineyards, L.P. response - We will work with our farm managers to ensure that this detail is included on the appropriate invoice.</p> <p>Response from Investment Office</p> <p>Staff considers the finding resolved. Staff concurs with PPV's corrective action.</p>	<p>9. (V.B) COMPLETE:</p> <p>The Auditor concurs with corrective action taken.</p>

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Premier Pacific Vineyards, L.P. General Partner Level (April 2007)	10. (V.C) Asset Management: Leverage Summary - The leverage summaries included in the quarterly reports to CalPERS do not include the current interest rates as published online in accordance with the terms of the loan agreements. The Auditors recommend that the leverage summary included in the quarterly reports be updated with the most current interest rate information available.	10. (V.C) Premier Pacific Vineyards, L.P. response - The QMRs should contain current interest rate information and will be reviewed closely to ensure that this is indeed the case. Response from Investment Office Staff considers the finding resolved. Staff concurs with PPV's corrective action.	10.(V.C) COMPLETE: The Auditor concurs with corrective action taken.
Premier Pacific Vineyards, L.P. General Partner Level (April 2007)	11. (V.D) Asset Management: Leverage Ratio - The Auditors noted that neither Agreement defines the term "cost basis of Company's Investments" in relation to the maximum allowable leverage ratio. PPV includes "other assets" such as growing crop, loan fees and deposits on vines for future use in the cost basis therefore, lowering the leverage ratio. On PVP, the inclusion of these "other assets" lowers the leverage ratio below the agreed-upon limit of 35%. The Auditors recommend that PPV draft a letter to define the "cost basis of Company's Investments" for purposes of calculating the leverage ratio for both PVP and Meriwether. Such definitions should be submitted to CalPERS for approval.	11. (V.D) Premier Pacific Vineyards, L.P. response - We will draft a letter for CalPERS approval by March 1st providing our interpretation of cost basis for purposes of calculating the leverage ratio for both funds. Response from Investment Office After provision of a memorandum to, and further discussion with, CalPERS staff, PPV considers this issue resolved.	11.(V.D) COMPLETE: The Auditor concurs with corrective action taken.

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